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September 30, 2016

Nebraska Public Service Commission
1200 N Street
Suite 300
Lincoln, Nebraska 68508

Attn: Mr. Jeff Pursley
Executive Director

Re: Black Hills Gas Distribution, LLC
Docket No. NG-0078.3 – In the matter of the application of Black Hills Gas Distribution, LLC d/b/a Black Hills Energy for an order authorizing it to increase the Safety and Integrity Charges and to decrease the Pipeline Replacement Charges in its Nebraska Gas Tariff

Dear Mr. Pursley:

Pursuant to the Final Order entered on October 28, 2014 and the Order Modifying Order Approving Application, In Part entered on November 4, 2014 in Docket No. NG-0078 and the Final Order entered on January 26, 2016 in Docket No. NG-0084, Black Hills Gas Distribution, LLC, d/b/a Black Hills Energy, (“BHGD-NE” or the “Company”) herewith submits for filing with the Nebraska Public Service Commission (Commission) the original and one paper copy of the following tariff sheet:

Twenty-eighth Revised Sheet No. 7
Canceling Twenty-seventh Revised Sheet No. 7

By this Application, BHGD-NE is proposing to adjust the Safety and Integrity Charges and the Pipeline Replacement Charges applicable to all customers served under Rate Schedule CGS (Choice Gas Service) and Rate Schedule ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service).

The change in the rates submitted with this Application reflects an increase in the overall Safety and Integrity Charges applicable to the referenced rate schedules to cover the incremental annual revenue requirement impact of costs incurred by BHGD-NE with respect to System Safety and Integrity Rider (“SSIR”) Projects as defined on Tariff Sheet No. 13 and the inclusion of the 2017 annual revenue requirement of the Projects that are currently being collected through the Pipeline Replacement Charge in the calculation of the SSIR rate.¹ In addition, this Application reflects a

¹ The final Order issued by the Nebraska Public Service Commission in Docket No. NG-0084 contains the following provision under the Rate Moratorium and Acquisition Premium Section on page 10: “The agreement further

decrease in the Pipeline Replacement Charge as a result of the revenue requirement for these projects being transferred to the SSIR. These eligible projects were not included in the rate base calculation in the most recently completed rate case for these Nebraska assets, Docket No. NG-0067 and in service and used and useful or will be in service and used and useful by December 31, 2017. If approved by the Commission, the monthly Safety and Integrity Charges shall increase and the monthly Pipeline Replacement Charges shall decrease as follows:

	Residential	Small Commercial	Large Commercial
Current SSIR Charge - \$/month	\$2.82	\$6.00	\$41.58
Proposed SSIR Charge - \$/month	\$4.92	\$10.48	\$72.09
Increase in Proposed SSIR Charge - \$/month	\$2.10	\$4.48	\$30.51
Current PRC Charge - \$/month	\$0.84	\$1.80	\$11.38
Proposed PRC Charge - \$/month	\$0.00	\$0.00	\$0.00
Decrease in Proposed PRC Charge - \$/month	\$0.84	\$1.80	\$11.38
Total Proposed Rate Changes - \$/month	\$1.26	\$2.68	\$19.13
Proposed Average Monthly Bill Increase - %	1.789%	1.865%	1.505%

The proposed 2017 SSIR has been calculated in accordance with Tariff Sheet Nos. 11 through 15, as more fully discussed herein including the addition of the PRC projects into the calculation.² The tariff sheet included with this Application bears a proposed effective date of February 1, 2017.

This filing includes the following exhibits:

- Exhibit 1 – Clean version of Twenty-eighth Revised Sheet No. 7.
- Exhibit 2 – Redlined version of Twenty-eighth Revised Sheet No. 7.
- Exhibit 3 – Narrative describing 2017 projects included in SSIR
- Exhibit 4 – Calculation of the SSIR

provides that Black Hills NE retains its rights within the System Safety Integrity Rider (“SSIR”) for eligible system safety and integrity costs, including allowing Black Hills NE the opportunity to include and collect eligible capital from the Pipeline Integrity Charge into the SSIR in the 2017 SSIR Filing. As a result, these projects will be referred to as SSIR Projects throughout this Application.

² The PRC projects were initially filed in Docket Nos. NG-0072 and NG-0072.1 and had a combined annual revenue requirement approved in those Dockets of \$1,108,509. Consistent with the SSIR Tariff, the Company recalculated the revenue requirement associated with these projects for 2017. This recalculation results in an annual revenue requirement of \$942,122 proposed to be recovered through the SSIR rates for 2017 for these projects.

Exhibit 5 – Explanation of variance greater than 10% or \$10,000 of 2015 projects.

Calculation of Safety and Integrity Charge

The calculation of the SSIR is shown on the tables that comprise Exhibit 4. A summary of the information shown on each schedule is as follows:

Table 1 – this table shows the derivation of the 2017 SSIR for the residential and small and large commercial customer classes. The rates are determined by dividing each customer class's portion of (1) the jurisdictional revenue requirement attributable to 2012 through 2017 SSIR projects³, (2) the 2015 Deferred SSIR Balance, (3) the 2015 SSIR True-up Amount and (4) the carrying cost associated with the Deferred SSIR Balance and SSIR True-up Amount by the estimated annual number of bills used in the most recently approved rate case in Docket No. NG-0067. The rate change caused by the proposed Safety and Integrity rate is then divided by the current average monthly bill for each customer class to show the average monthly bill increase from the proposed 2017 SSIR.

Table 2A – this table shows the calculation of the statewide revenue requirement resulting from the 2014 through 2017 SSIR Projects⁴. The statewide revenue requirement for each of the respective years is as follows:

	Statewide Revenue Requirement
2014 Projects	\$1,334,460
2015 Projects	\$2,122,452
2016 Projects	\$2,926,512
2017 Projects	\$504,032

The determination of the revenue requirement requires calculation of the incremental revenue required to compensate BHGD-NE and includes: (i) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital including an authorized return on equity of 9.60% grossed up for taxes, on the projected increase in the month ending net plant in-service balances associated with the Projects; (ii) the plant-related ownership costs associated with such incremental plant investment, including depreciation less any retirements, accumulated deferred income taxes (ADIT), and all

³ The 2012 and 2013 projects were previously collected through the PRC Charge but are being transferred into the SSIR calculation and the SSIR Rate in this Application pursuant to the Commission Order in Docket No. NG-0084.

⁴ The Company only calculated the 2017 Jurisdictional revenue requirement for the 2012 and 2013 projects that were previously collected through the PRC Charge. The statewide revenue requirement for these projects was not necessary to determine the rates requested in this filing, so that analysis was not performed.

taxes including income taxes and property taxes; and (iii) the projected operation and maintenance (O&M) expenses related to the Projects for 2017.

Table 2B – this table shows the derivation of, and the components of, the jurisdictional revenue requirement resulting from 2012 through 2017 SSIR Projects. The jurisdictional revenue requirement for each of the respective years is as follows:

	Jurisdictional Revenue Requirement
2012 Projects	\$543,112
2013 Projects	\$399,010
2014 Projects	\$1,010,321
2015 Projects	\$1,612,739
2016 Projects	\$2,260,830
2017 Projects	\$389,132
Total	\$6,215,144

By this filing, BHGD-NE is seeking to recover the jurisdictional revenue deficiency from its residential and small and large commercial customer classes.⁵

Table 3 – this table lists the 2012 through 2017 SSIR Projects included in the 2017 SSIR calculation including projected in-service date, total project cost, estimated betterment credit, if any, and net project cost to be included in the revenue requirement calculation. The estimated total project cost for 2012 through 2017 SSIR projects net of all betterment credits as follows:

	Total Estimated Net Project Costs
2012 Projects	\$6,034,027
2013 Projects	\$4,067,256
2014 Projects	\$9,756,954
2015 Projects	\$14,370,830
2016 Projects	\$20,473,982
2017 Projects	\$11,809,666
Total	\$66,512,715

⁵ Section 66-1810 of the Act exempts service provided to high volume ratepayers from the Commission's regulatory oversight and allows for flexible regulation of service provided to agricultural and interruptible service customers that are not high-volume ratepayers. For ease of reference and understanding, BHGD-NE refers to these customers as "non-jurisdictional" because their rates are not set through the traditional ratemaking process. Under this nomenclature, "jurisdictional customers" are the members of the residential and commercial classes that do not meet the definition of high volume ratepayers.

Table 4 – this table assigns the 2014 through 2017 SSIR Projects into FERC Accounts and further separates the costs to the jurisdictional customer classes.⁶ The “jurisdictional” component of the revenue requirement, as shown on this table, was determined using the cost allocation principles adopted by the Commission the most recent general rate case, Docket No. NG-0067, for these assets filed by SourceGas Distribution LLC.

Table 5 – this table shows the calculation inputs such as depreciation and tax rates and allocation percentages used for calculating the SSIR revenue requirement.

Table 6 – this table shows the reconciliation of authorized to actual 2015 SSIR costs and revenue which are defined and described in Tariff Sheet Nos. 11 through 15 as the SSIR True-Up and SSIR Deferred Balance. The 2015 Deferred SSIR Balance indicates an undercollection of \$34,558 for calendar year 2015. The 2015 SSIR True-up Amount indicated that the authorized revenue requirement was \$288,784 lower than the actual revenue requirement for calendar year 2015. The net carrying cost of the 2015 Deferred SSIR Balance and SSIR True-up Amount increased the 2017 SSIR by \$10,509.

Please contact me at (303) 566-3541 if you have any questions or need additional information.
Very truly yours,

BLACK HILLS GAS DISTRIBUTION, LLC



Jerrad Hammer
Director - Regulatory

Enclosures

cc: Scott Coburn., Director of Natural Gas Department, NPSC
William F. Austin, Esq., Nebraska Public Advocate
Douglas Law – Deputy General Counsel
Adam Buhrman – Corporate Counsel
Choice Gas Program Suppliers

⁶ The assignment of the 2012 and 2013 projects into FERC Accounts and the further separation of the costs to the jurisdictional customer classes was detailed in the filings in Docket Nos. NG-0072 and NG-0072.1. Additionally, this information is being provided in a separate electronic model being provided by the Company with this filing.